

NORTH CAROLINA EDUCATION LOTTERY
INSTANT TICKET LOTTERY GAME SERVICES QUESTIONS¹

1. The NCEL states that one of the objectives is to achieve at least a thirty percent (35%) transfer of total annual revenues to the Education Lottery Fund. What administrative overhead and retailer compensation percentages should we assume when we develop plans to deliver the NCEL profit goals? (Page 03, Section 1.2)

Please see G.S. § 18C-162 with respect to allocation of revenues and §18C-143 with respect to lottery game retailer compensation.

2. Will the NCEL provide the weighting that will be placed against each category being evaluated? (Page 13, Section 2.11.4)

No.

3. This section states that the Successful Vendor, approved subcontractors, or joint ventures shall have any proprietary rights or interests in software, patents, copyrights, etc. provided in connection with the services provided exclusively for the NCEL under the contract. We assume this does not apply to Successful Vendor, approved contractor, or joint venture previously established software, patents, copyrights, etc. Please confirm. (Page 19, Section 3.21)

We believe you meant to cross reference Section 3.9 on page 19 rather than Section 3.21. Under the first paragraph of Section 3.9, your statement is incorrect. Section 3.9 begins by clearly saying that “Neither the Successful Vendor nor any of its approved subcontractors or joint venturers shall have any proprietary rights or interests in the software ...developed, produced or provided in connection with the services provided exclusively for the NCEL...” (emphasis added). The third paragraph of Section 3.9 addresses “Vendor Licensed Intellectual Properties” and addresses the license that the Successful Vendor will grant to the NCEL with respect to such items.

4. (a) What method will the Lottery use to assess the Vendor for liquidated damages? (Page 24, Section 3.21; Page 19, Section 20)

Section 4.12 of the RFP for Instant Ticket Lottery Games Services (page 30) says:

¹ The Questions are directly quoted from those timely submitted by potential Vendors in accordance with the RFP with the exception that potential Vendor's names have been redacted from the Questions and multi-part questions have been divided into sub-parts.

“A Vendor must propose a program of liquidated damages to cover the damages listed in Section 3.21 and provide the rationale and the computation formula used to determine the level of damage penalties that are included in this response. All proposed liquidated damages amounts shall be subject to the satisfaction of the NCEL.”

The Vendors should provide all of this information in their Proposals. The NCEL reserves the right to negotiate all such liquidated damages provisions, including the specific levels, amounts, descriptions and other aspects thereof, notwithstanding what is proposed by the Vendors.

(b) Will this be based on lost revenue, materials and/or administrative cost, a flat fee, or by some other means? (Page 24, Section 3.21; Page 19, Section 20)

See the Answer to Question 4(a).

(c) Can the NCEL provide a general idea of how liquidated damages will be calculated? (Page 24, Section 3.21; Page 19, Section 20)

See the Answer to Question 4(a).

5. How many different laboratory test reports will be required? (Page 38, Section 5.4.2)

One copy of each unique test conducted based on the Vendor’s menu of tests.

6. The NCEL states that the NCEL may arrange for quality, security, and bar code testing of tickets by an independent laboratory selected by NCEL; will the Lottery specify who will do their ticket testing? (Page 39, Section 5.4.5)

The NCEL will reveal who will do the testing at the time the NCEL requires testing.

7. Can the Lottery provide the file format options(s) required for the computer file containing all prizes for the games? (Page 40, Section 5.4.7)

The Vendor should provide options available to the NCEL.

8. (a) The NCEL states that the Vendor may be required to distribute annually up to four instant ticket games from other vendors. Does this procurement include the four instant ticket games distributed to other vendors? (Page 42, Section 5.7)

No.

(b) If not, what would be the procurement process for the other vendors to propose those four instant ticket games? (Page 42, Section 5.7)

The NCEL reserves the right to procure those games in whatever manner it chooses at the time consistent with applicable laws and its policies, rules and regulations.

9. (a) Within the requested 18-month marketing plan, the NCEL requests inclusion of a discussion regarding the strategy for focus group testing and incentives and promotions. (i) Is it the NCEL's intent that the vendor will be responsible for the costs and/or the management of focus group research projects? (Pages 43-44, Section 5.12)

Yes.

(ii) If the answer to question 9(a)(i) is yes: What is the NCEL's expectation of the number of focus group projects to be executed annually? (Pages 43-44, Section 5.12)

At least 4.

(iii) If the answer to question 9(a)(i) is yes: How many locations and groups per each project should be assumed? (Pages 43-44, Section 5.12)

Vendor should provide a proposed strategy as requested in Section 5.12 of the RFP.

(iv) If the answer to question 9(a)(i) is yes: If the NCEL does not have any specific expectations and, instead, desires the vendors to propose a recommended plan for focus group research in their responses, will the NCEL please provide an annual focus group expenditure amount for which the NCEL expects the vendor would be responsible? (Pages 43-44, Section 5.12)

All expenses associated with the proposed Vendor plan are to be paid by the Vendor.

(b) If the answer to question 9(a)(i) is no: What is the NCEL's expected annual focus group research budget? (Pages 43-44, Section 5.12)

Not Applicable.

(c) Is it the NCEL's intent to use only focus groups to test instant tickets, or is the NCEL willing to consider additional discussion in the marketing plan regarding alternative instant ticket testing methods that may be more appropriate and valid depending upon the specific research objectives? (Pages 43-44, Section 5.12)

The NCEL intends to use focus groups to test instant tickets. The Vendor may provide “additional” strategies if they choose.

(d) With respect to incentives and promotions, does the NCEL merely expect a discussion of the vendor's recommended approaches in the marketing plan, or does the NCEL expect the vendor to bear any or all of the costs associated with their executions as part of the plan? (Pages 43-44, Section 5.12)

The NCEL would expect that if any of the proposed plans are implemented, shared marketing costs, if any, would be negotiated prior to implementation. Vendors would be expected to bear all costs associated with any system software modifications associated with any promotion implemented.

(e) Will the NCEL provide an estimate of its expected annual incentive and/or promotions budget? (Pages 43-44, Section 5.12)

No.

(f) If the NCEL desires the vendor to bear all or some of the costs of the incentives and promotions, will the NCEL provide an annual expenditure amount that it expects the vendor to provide as part of the contract? (Pages 43-44, Section 5.12)

See the Answer to Question 9(d).

10. (a) Are we correct in assuming that the pricing for instant ticket printing should include recommendation from the Vendors for general ticket specifications, including, but not limited to, substrate, ticket size, pack size, etc.? (Page 47, Section 6.2)

RFP Section 6.2 clearly states: “Vendors are reminded that the cost quotation should cover the entire System, and all of the products and services covered by this RFP and Procurement...” and RFP Section 6.2 also specifically enumerates selected products, equipment and services that must be included in the price proposal.

(b) Vendors are able to provide specialty ticket options that can be added to enhance the sales of instant tickets. Can the Vendors provide a list of options, and pricing for each option? (Page 47, Section 6.2)

Yes, but see RFP Sections 5.12 and 6.5. The NCEL expects that all services(s) and products(s) described in the RFP, including Section 5.12 thereof, are to be provided and included in the proposed cost quotation called for in RFP Section 6.2. (emphasis added) This includes the 7th bullet point of RFP Section 6.2 which reads: “All other services deemed necessary by the Vendor.” Obviously, Vendors are encouraged to include as many extra enhancements as they can in their RFP Section 6.2 cost quotation without additional charge to the NCEL to increase the value of their proposed offering.

(c) (i) Will the NCEL also require sample and oversize tickets? (Page 47, Section 6.2)

The NCEL will require void tickets.

(ii) If the answer to question 10(c)(i) is yes: can the Lottery provide the size, quantity, substrate, and other requirements for these items? (Page 47, Section 6.2)

Void tickets for each game must be the same specifications as that game. The quantity should be one hundred and two thousand (102,000) for each game.

(iii) If the answer to question 10(c)(i) is yes: Should this cost be included in the base pricing formula? (Page 47, Section 6.2)

Yes.

(d) In order for us to anticipate all possible influences on unsold inventory as we develop our pricing it is important to understand if the NCEL’s policy requires removing a game from sale when the last top prize is claimed? If so, what are the details of that policy? (Page 47, Section 6.2)

The NCEL will make every effort to not remove a game from sale until it is ninety percent (90%) sold; however the NCEL reserves the right to remove a game from sale prior to it being ninety percent (90%) sold.

- (e) (i) Will the Vendor be responsible for providing Lottery employees' travel expenses for press checks? (Page 47, Section 6.2)

Yes.

(ii) if the answer to Question 10(e)(i) is yes: What is the number of employees expected to attend and how frequently? (Page 47, Section 6.2)

The equivalent of one (1) for every press check.

11. (a) Will FREE tickets be included in the determination of net sales? (Pages 47-48, Section 6.3)

Yes.

(b) If so, will they be calculated using the value of the free ticket (e.g. \$1 retail for a \$1 free ticket) awarded to players? (Pages 47-48, Section 6.3)

Yes.

12. Can the Lottery provide a vector file of their logo? (Pages, Sections not applicable.)

A final logo for the NCEL has not yet been determined.

13. How many retailers are currently approved/licensed? How many retailers have applied and are still awaiting approval/licensing? (Section 1.1)

No retailers have applied, nor have any been approved at this time.

14. (a) Does the Successful Vendor or NCEL pay the cost of background investigations? (Section 3.6)

G.S. §18C-151(a)(3) requires each Proposal to be accompanied by "...the fee to cover the cost of the criminal record check..." The cost of such checks should be submitted with ALL proposals, not just by the Successful Vendor.

(b) If the Successful Vendor pays the cost, what is the typical cost of the background Investigation? (Section 3.6)

Each Vendor (not just the Successful Vendor) must submit, with its Proposal, a check in an amount equal to the sum of:

- (1) Three Thousand Five Hundred Dollars (\$3,500) (the “Corporate Search Fee”) for the Vendor;**
- (2) the Corporate Search Fee for any parent corporation of the Vendor;**
- (3) the Corporate Search Fee for any subsidiary of the Vendor that is bidding in connection with the Vendor on the Procurement described in the RFP;**
- (4) the Corporate Search Fee for EACH joint venture partner or subcontractor who will be paid twenty-five percent (25%) or more of the Proposed Contract amount and who is bidding with the Vendor on the Procurement described in the RFP; and**
- (5) Two Hundred Dollars (\$200) (the “Individual Search Fee”) for EACH officer and director of the Vendor and for each shareholder of the Vendor who owns an interest of five percent (5%) or more in the Vendor.**

15. With regard to any new trademarks or service marks developed for the NCEL which the NCEL may seek to register in its name, will these be trademarks or service marks developed exclusively for, and used by, the NCEL? (Section 3.11)

They will be owned by the NCEL and the NCEL will decide who may use them and how they may be used.

16. “Not less than 5% of the Proposal” is not a specific amount. We respectfully request the NCEL provide a specific amount for the bond/letter of credit to be posted with the delivery of the proposal. (Section 3.19)

For purposes of determining the amount of the initial bond that must accompany the Proposal pursuant to G.S. §18C-151(a)(3), the Vendor should deliver a bond with its Proposal in the amount of Ten Million Dollars (\$10,000,000).

17. Please provide the amount of the fee required to “cover the cost of criminal record check”. (Section 3.19)

Each Vendor (not just the Successful Vendor) must submit, with its Proposal, one (1) check in the amount equal to the sum described in the Answer to Question 14(b) to cover both the cost of the criminal record check (RFP Section 3.19) and the background investigation (RFP Section 3.6).

18. Some of the insurance amounts specified in RFP section 3.20 are different from the amounts specified in Exhibit A – Proposed Contract – paragraph 17(d). Please clarify the following insurance requirements:

(a) Errors & Omissions - \$5,000,000 (five million dollars) per RFP section 3.20 compared to \$15,000,000 (fifteen million dollars) per Exhibit A paragraph 17(d) iii).

The RFP is correct. The Errors and Omissions insurance coverage level in Section 17(d) of the Proposed Contract in Exhibit A should be Five Million Dollars (\$5,000,000).

(b) Automobile Liability -\$2,000,000 (five million dollars) per RFP section 3.20 compared to \$5,000,000 (fifteen million dollars) per Exhibit A paragraph 17(d) iv). (Section 3.20)

The RFP is correct. The Automobile liability insurance coverage level in Section 17(d) of the Proposed Contract should be Two Million Dollars (\$2,000,000).

19. We interpret this section to require disclosure of open, pending litigation. Is this correct? (Section 4.6)

No, that is not correct. For example, G.S. § 18C-151 (a)(5) and G.S. §§18C-152(c)(5) and (6) (which are specifically referenced in Section 4.6) require disclosure of matters which may no longer be open or pending, and which in some cases may have occurred ten (10) or more years ago. Complete disclosure in this area is critical and should not be taken lightly so that the NCEL may undertake a careful and thorough investigation of the integrity and past and present practices of each Vendor. If in doubt, disclose it.

20. If a Vendor is a subsidiary of another company, the Vendor will not have audited financial statements. (a) Will the NCEL accept the audited consolidated financial of a Vendor's parent company to fulfill this requirement? (Section 4.8)

The NCEL seeks to understand the financial position of the party with whom it is contracting. If the Vendor is a wholly owned subsidiary of another company and all of the Vendor's financial statements are fully consolidated with its parent corporation, the audited financial statements of the parent corporation may be supplied; provided, however, in such case, if there are no fully audited financial statements of the Vendor itself, the NCEL may require the parent corporation whose financial statements have been provided to either guarantee the obligations of the Vendor or sign the Contract and be jointly and severally liable with the Vendor or some other such arrangement, in the discretion of the NCEL.

(b) Please confirm that only one set of financials is required and to be submitted with the original proposal. (Section 4.8)

Section 4.8 clearly requires copies of the Vendor's last three (3) years audited financial statements, and Section 2.5 requires a signed original and ten (10) complete copies of each Vendor's Proposal.

21. Please confirm that the coating is to cover the display printing on the ticket and not the overprints on the scratch off area of the ticket. (Section 5.1.3)

Coating is to cover the display printing on the ticket and not the overprints on the scratch off area of the ticket.

22. (a) Does the 10,000 square feet of dedicated Lottery space in the warehouse include the three offices for NCEL employees? (Section 5.5)

No, per the RFP Section 5.5 the warehouse must contain ten thousand (10,000) square feet for point of sales and other materials.

(b) Regarding the Lottery's 10,000 square feet of space in the instant vendor's warehouse, does this need to be secured from the instant vendor's space in the warehouse? (Section 5.5)

Yes.

(c) Does the Lottery expect the instant vendor to provide warehouse racking for the 10,000 square foot space? (Section 5.5)

Yes.

(d) If the answer to question 22 (c) is yes, how many square feet of racking does the Lottery desire? (Section 5.5)

The NCEL requires a minimum of twenty-four hundred (2400) square feet for each level. For example, if racks can be stacked three (3) high, then a minimum of seventy-two hundred (7200) square feet would be required.

23. Please clarify that the it is the online vendor who will be responsible for providing the hardware, (management terminals, picking and packing PCs, scanners, printers, etc.) software telephone communications from the online vendor's system to the instant vendor's warehouse and warehouse picking and packing labels? (Section 5.6)

Section 5.6 of this RFP deals with the ticket inventory control and management plan and thus the NCEL does not understand this Question. Vendors may also review Section 5.6 of the Online Lottery Gaming System RFP for further guidance and should also note Answer 29(c) of these Answers.

24. Will the Lottery's staff who are located in the instant vendor's warehouse be responsible for the actual processing of partial and full pack instant ticket returns using the online vendor's system, or will the instant vendor perform this data entry? (Section 5.10)

The NCEL warehouse staff will handle this function.

25. What is the amount of rent the NCEL will charge the Successful Vendor for the office space at NCEL headquarters if Successful Vendor's employees utilize space at NCEL headquarters? (Section 5.12)

The specific location of the NCEL headquarters has not yet been determined. It is the current intention of the NCEL to charge the Successful Vendor its pro-rata share of rent (and other related occupancy expenses and costs) at that location determined by multiplying the total rent (and other related occupancy expenses and costs) charged by a fraction, the numerator of which is the total square

footage allocated to the Successful Vendor, and the denominator of which is the total square footage leased.

26. (a) Should subsection (ii) (B) of Exhibit A state “activated” defective tickets...? (Exhibit A)

Yes, Section 5(a)(ii)(B) of the Proposed Contract in Exhibit A should read:

“(B) activated defective tickets, based on numbers reported to the NCEL during the given week; MINUS”

(b) should subsection (iii) of Exhibit A state “activated” promotional tickets issued....? (Exhibit A)

Yes, Section 5(a)(iii) of the Proposed Contract in Exhibit A should read:

“(iii) the total face value of activated promotional tickets issued by the NCEL during the given week.”

27. Subsection 16 (m)(v) of the Contract in Exhibit A repeats “and percentage of revenue stated.” Is this a typo? (Exhibit A)

Yes.

28. The RFP states that the NCEL’s retailer base as of the Startup Deadline is expected to be approximately five thousand (5,000) (subject to change in the discretion of the Commission). Have there been any changes to this estimate? (N/A – General)

No.

29. **THESE ADDITIONAL CLARIFICATIONS AND SUPPLEMENTAL INFORMATION, AMENDMENTS OR ADDITIONS TO THE RFP ARE PROVIDED BY THE NCEL AND ARE HEREBY INCORPORATED THROUGH THESE ANSWERS INTO THE RFP AND CONTRACT:**

(a) **The following sentence should be the last sentence Section 3.20 in lieu of the current sentence that is there now:**

“The Successful Vendor shall provide the NCEL with certificates of insurance within ten (10) days after the Contract date and evidence of any renewed bonds or insurance policies within five (5) days prior to the

expiration of then existing bonds or insurance policies during the term of the Contract.”

(b) A Microsoft Word version of the current version of the Proposed Contract (including any clarifications provided by these Answers) will be placed on the NCEL Website to facilitate the Vendors providing a redline showing any of their suggested changes. Any suggested changes (deletions, additions or moves) made to the proposed NCEL latest version of the Proposed Contract must be clearly indicated in any submission by a Vendor (preferably in color).

(c) The following sentence should be added as the first sentence of Section 5.9 of the RFP:

The Successful Vendor under this Instant Ticket Lottery Game Services RFP will work in cooperation with the NCEL and the Online Lottery Gaming System Successful Vendor in implementing certain system interfaces for the purpose of processing instant ticket game inventory data and retailer maintenance data and other information.